Vietnam’s Competitiveness

Professor Michael E. Porter
Harvard Business School

Ho Chi Minh, Vietnam
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This presentation draws on ideas from Professor Porter’s books and articles, in particular, Competitive Strategy (The Free Press, 1980); Competitive Advantage (The Free Press, 1985); “What is Strategy?” (Harvard Business Review, Nov/Dec 1996); “Strategy and the Internet” (Harvard Business Review, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu. Version: November 18, 2008, 3pm
The Need For An Economic Strategy

• Vietnam has experienced an **impressive growth** over the last two decades

• However, **reforms so far are insufficient** to move Vietnam to a middle income economy

• The **next several years** will determine whether Vietnam will follow the experience of Korea, or the Philippines

• Vietnam’s reform have been **piecemeal and reactive**

• Improving Vietnam’s standard of living will require a **long term economic strategy**
  
  – A set of interrelated **policy changes, institutional structures**, and rigorous **implementation mechanisms**
Agenda

- Understanding Vietnam’s Economic Performance
- Assessing Vietnamese Competitiveness
- Identifying Action Priorities
- Organizing for Competitiveness
- Creating an Economic Strategy
Labor Force Utilization
Participation Rates, Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>2007 Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>6.16%</td>
</tr>
<tr>
<td>China</td>
<td>55%</td>
</tr>
<tr>
<td>Sweden</td>
<td>50%</td>
</tr>
<tr>
<td>Norway</td>
<td>45%</td>
</tr>
<tr>
<td>Australia</td>
<td>40%</td>
</tr>
<tr>
<td>Canada</td>
<td>35%</td>
</tr>
<tr>
<td>Portugal</td>
<td>30%</td>
</tr>
<tr>
<td>Iceland</td>
<td>25%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>20%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15%</td>
</tr>
<tr>
<td>Singapore</td>
<td>10%</td>
</tr>
<tr>
<td>Thailand</td>
<td>5%</td>
</tr>
<tr>
<td>Japan</td>
<td>0%</td>
</tr>
</tbody>
</table>

Change in Labor Force Participation Rate, 2003-2007
Source: Economist Intelligence Unit (2008)
Comparative Labor Productivity
Selected Countries

GDP per employee (PPP adjusted US$), 2007

Compound annual growth rate (CAGR) of real GDP per employee (PPP-adjusted), 2003-2007

Source: authors calculation Groningen Growth and Development Centre (2008)
Decomposition of Vietnamese Growth

Contribution to Annual GDP growth (%)

10%
8%
10%
6%
4%
2%
0%
-2%


Source: Ohno (2008)

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Domestic Fixed Investment Rates
Selected Countries

Gross Fixed Investment as % of GDP (2007)

Latvia 34%
China (40.4%) 32%
Estonia 32%
India 30%
Vietnam 28%
Spain 26%
Australia 24%
Slovakia 22%
Slovenia 20%
Czech Republic 18%
Thailand 16%
Argentina 14%

Change in Gross Fixed Investment (as % of GDP), 2003 - 2007

Note: Includes inbound FDI
Source: EIU, 2008
Inbound Foreign Investment Performance
Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2003 - 2007

Export Performance
Selected Countries

Exports as Share of GDP (in %, 2007)

- Thailand (116.4%)
- Belgium
- Czech Republic
- Slovakia
- China

Change of Exports as Share of GDP, 2003 to 2007

- Imports as a share of GDP are equally high

Source: EIU (2008), authors' analysis
Vietnam’s Exports By Type of Industry

World Export Market Share (current USD)

- Processed Goods
- Semi-processed Goods
- Unprocessed Goods
- Services
- TOTAL

Legend:
- Red: Processed Goods
- Gray: Semi-processed Goods
- Dark Gray: Unprocessed Goods
- Yellow: Services
- Black: TOTAL

Source: UNComTrade, WTO (2008)
Vietnam’s Cluster Export Portfolio
2000-2006

Change in Vietnam’s Overall Growth in World Export Share: 0.25%

Vietnam’s Average World Export Share: 0.31%

Exports of US$1.1 Billion

Agenda

• Understanding Vietnam’s Economic Performance

• Assessing Vietnamese Competitiveness

• Identifying Action Priorities

• Organizing for Competitiveness

• Creating an Economic Strategy
What is Competitiveness?

- Competitiveness depends on the **productivity** with which a nation uses its human, capital, and natural resources.
  - Productivity **sets the sustainable standard of living** (wages, returns on capital, returns on natural resources)
  - It is not **what** industries a nation competes in that matters for prosperity, but **how productively** it competes in those industries
  - Productivity in a national economy arises from a **combination of domestic and foreign firms**
  - The productivity of **“local” or domestic industries** is fundamental to competitiveness, not just that of export industries

- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy
• Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**

• Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
Wage Level Comparison
Selected Countries

Monthly Minimum Wage USD, log scale, 2008

Source: Global Competitiveness Report, 2008; EuroStat, 2008; Philippines Department of Labor and Employment, 2008
Rate of Competitiveness Improvement
Low Income Countries, 2002 - 2007

BCI Value, 2007

High

Low

Vietnam

Source: Global Competitiveness Report 2007

Dynamism Score, 2002 - 2007
Macroeconomic Competitiveness

Social Infrastructure and Political Institutions

- **Basic human capacity**
  - Basic education
  - Health system

- **Political institutions**
  - Political freedom
  - Voice and accountability
  - Political stability
  - Centralization of economic policymaking
  - Government effectiveness

- **Rule of law**
  - Judicial independence
  - Efficiency of legal framework
  - Civil rights
  - Business costs of corruption
  - Reliability of police
  - Prevalence and costs of crime

Macroeconomic Policies

- **Fiscal policy**
  - Government surplus/deficit
  - Government debt
  - Savings / Investment rates

- **Monetary policy**
  - Inflation
  - Interest rate spread
Macroeconomic Competitiveness
Vietnam’s Position

Social Infrastructure and Political Institutions

Basic health and education
+ Solid provision of basic services
  – Increasing concerns about the quality of these public services

Political institutions
+ High levels of political stability
+ Increasing decentralization of economic policy responsibilities
  – Little effective policy dialogue
  – Corruption remains a significant challenge

Rule of law
+ Quality of laws tends to be good
  – Effectiveness of implementation remains weak

Macroeconomic Policies

Fiscal policy
+ Government budget and debt at acceptable levels
  – Government budget still reliant on foreign aid

Monetary Policy
– High levels of inflation

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Governance Indicators
Selected Countries

Best country in the world

Index of Governance Quality, 2007

Worst country in the world

Note: Sorted left to right by decreasing average value across all indicators. The ‘zero’ horizontal line corresponds to the median country’s average value across all indicators.


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Corruption Perception Index, 2007

Note: Ranks only countries available in both years (91 countries total)
Source: Global Corruption Report, 2007
Microeconomic Competitiveness: Quality of the Business Environment

- **Context for Firm Strategy and Rivalry**
  - Local rules and incentives that encourage investment and productivity
    - e.g. incentives for capital investments, intellectual property protection
  - Vigorous local competition
    - Openness to foreign and local competition

- **Factor (Input) Conditions**
  - Access to high quality business inputs
    - Human resources
    - Capital availability
    - Physical infrastructure
    - Administrative infrastructure (e.g. registration, permitting)
    - Information and transparency
    - Scientific and technological infrastructure

- **Demand Conditions**
  - Sophistication of local customers and needs
    - e.g., strict quality, safety, and environmental standards

- **Related and Supporting Industries**
  - Availability of suppliers and supporting industries

- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing
Vietnamese Business Environment
Vietnam’s Relative Position 2008

**Competitive Advantages**

- Communications infrastructure (rank 72)
  - E.g., quality of the telephone infrastructure
- Local competition (rank 75)
  - E.g., intensity of local competition

**Competitive Disadvantages**

- Government intervention (rank 119)
  - E.g., SOE market dominance
- Trade barriers (rank 113)
  - E.g., level of import tariffs

Note: Rank versus 130 countries; overall, Vietnam ranks 102nd in 2008 PPP adjusted GDP per capita and 76th in New Global Competitiveness

Openness to Trade
Selected Countries, 2008

Rank (157 countries)

• Vietnam’s lack of openness will retard further competitiveness upgrading

Source: Index of Economic Freedom (2008), Heritage Foundation
### Vietnamese Business Environment

#### Vietnam’s Relative Position 2008

<table>
<thead>
<tr>
<th><strong>Competitive Advantages</strong></th>
<th><strong>Competitive Disadvantages</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Communications infrastructure (rank 72)</td>
<td></td>
</tr>
<tr>
<td>– E.g., quality of the telephone infrastructure</td>
<td></td>
</tr>
<tr>
<td>• Local competition (rank 75)</td>
<td></td>
</tr>
<tr>
<td>– E.g., intensity of local competition</td>
<td></td>
</tr>
<tr>
<td>• Energy infrastructure (rank 109)</td>
<td></td>
</tr>
<tr>
<td>– E.g., quality of electricity supply</td>
<td></td>
</tr>
<tr>
<td>• Government intervention (rank 119)</td>
<td></td>
</tr>
<tr>
<td>– E.g., SOE market dominance</td>
<td></td>
</tr>
<tr>
<td>• Trade barriers (rank 113)</td>
<td></td>
</tr>
<tr>
<td>– E.g., level of import tariffs</td>
<td></td>
</tr>
<tr>
<td>• Access to finance (rank 109)</td>
<td></td>
</tr>
<tr>
<td>– E.g., financial market sophistication</td>
<td></td>
</tr>
<tr>
<td>• Innovation infrastructure (rank 99)</td>
<td></td>
</tr>
<tr>
<td>– E.g., patents per capita</td>
<td></td>
</tr>
<tr>
<td>• Logistical infrastructure (rank 96)</td>
<td></td>
</tr>
<tr>
<td>– E.g., quality of roads</td>
<td></td>
</tr>
</tbody>
</table>

Note: Rank versus 130 countries; overall, Vietnam ranks 102nd in 2008 PPP adjusted GDP per capita and 76th in New Global Competitiveness

Cost of Doing Business
Vietnam, 2008

Ranking, 2008 (of 181 countries)

**Favorable**

- Ease of Doing Business
- Enforcing Contracts
- Getting Credit
- Dealing with Licenses
- Import and Export Procedures
- Employing Workers
- Starting a Business
- Closing a Business
- Paying Taxes
- Protecting Investors

**Unfavorable**

- Median Ranking, East Asia and Pacific

Vietnam’s per capita GDP rank: 70th

- Especially in **land ownership** in rural areas significant problems remain

State-Owned Enterprises (SOEs) in Vietnam

• SOEs continue to play a dominant role in the Vietnamese economy, despite the commitment to privatization

• Government oversight of these companies and their spending is limited and largely reactive

• The costs of slow progress on privatization are high for Vietnam’s competitiveness
  – Retards entry of new private companies
  – Creates risks of corruption
  – Can exacerbate economic volatility through excessive investment financed through soft credit

• An effective privatization program strategy for Vietnam must shift economic structure, not just change ownership
  – Privatization must go hand-in-hand with market opening and policies to curtail anti-competitive practices
  – Owners are needed that contribute new capital and skills
  – Minority stakes can distribute ownership more widely
State of Cluster Development
Tourism Cluster in Cairns, Australia

Public Relations & Market Research Services

Travel agents
Tour operators

Food Suppliers

Restaurants
Attractions and Activities e.g., theme parks, casinos, sports

Property Services

Hotels

Maintenance Services

Airlines, Cruise Ships

Local retail, health care, and other services

Local Transportation

Souvenirs, Duty Free

Banks, Foreign Exchange

Government agencies e.g. Australian Tourism Commission, Great Barrier Reef Authority

Educational Institutions e.g. James Cook University, Cairns College of TAFE

Industry Groups e.g. Queensland Tourism Industry Council

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
Vietnam’s Cluster Export Portfolio
2000-2006

Change in Vietnam’s Overall Growth in World Export Share: 0.25%

Footwear (5.68%, 1.91%)

Fishing and Fishing Products

Apparel

Coal & Briquettes

Textiles

Plastics

Tobacco

Vietnam’s Average World Export Share: 0.31%

Exports of US$1.1 Billion

Share of World Exports by Cluster
Vietnam, 2000

Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
Share of World Exports by Cluster
Vietnam, 2006

Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
The business environment at a given location is the cumulative outcome of policy at all geographic levels.

Many competitiveness drivers occur at the regional and local level.

The allocation of competitiveness responsibilities across geographic levels is a crucial policy challenge.
Specialization of Regional Economies  
Selected U.S. Geographic Areas

Seattle-Bellevue-Everett, WA  
Aerospace Vehicles and Defense  
Fishing and Fishing Products  
Analytical Instruments

San Francisco-Oakland-San Jose Bay Area  
Communications Equipment  
Agricultural Products  
Information Technology

Los Angeles Area  
Apparel  
Building Fixtures, Equipment and Services  
Entertainment

San Diego  
Leather and Sporting Goods  
Power Generation  
Education and Knowledge Creation

Wichita, KS  
Aerospace Vehicles and Defense  
Heavy Machinery  
Oil and Gas

Pittsburgh, PA  
Construction Materials  
Metal Manufacturing  
Education and Knowledge Creation

Chicago  
Communications Equipment  
Processed Food  
Heavy Machinery

Denver, CO  
Leather and Sporting Goods  
Oil and Gas  
Aerospace Vehicles and Defense

Boston  
Analytical Instruments  
Education and Knowledge Creation  
Communications Equipment

Raleigh-Durham, NC  
Communications Equipment  
Information Technology  
Education and Knowledge Creation

Atlanta, GA  
Construction Materials  
Transportation and Logistics  
Business Services

Houston  
Oil and Gas Products and Services  
Chemical Products  
Heavy Construction Services

Note: Clusters listed are the three highest ranking clusters in terms of share of national employment.
Vietnam Provincial Competitiveness Index, 2006

Source: Vietnam Provincial Competitiveness Index 2006 (USAID)
Vietnam has a central position between ASEAN and China
## Economic Coordination Among Neighbors
### Enhancing Productivity

<table>
<thead>
<tr>
<th>Factor (Input) Conditions</th>
<th>Context for Strategy and Rivalry</th>
<th>Demand Conditions</th>
<th>Related and Supporting Industries</th>
<th>Macroeconomic Competitiveness</th>
<th>Regional Strategy &amp; Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving regional transportation infrastructure</td>
<td>Eliminating trade and investment barriers within the region</td>
<td>Harmonizing environmental standards</td>
<td>Facilitating cross-border cluster upgrading, e.g.</td>
<td>Coordinating programs to improve public safety</td>
<td>Creating a regional marketing program</td>
</tr>
<tr>
<td>Creating an efficient energy network</td>
<td>Simplifying and harmonizing cross-border regulations and paperwork</td>
<td>Harmonizing product safety standards</td>
<td>– Tourism</td>
<td>Coordinating macro-economic policies</td>
<td>Sharing best practices in government operations</td>
</tr>
<tr>
<td>Enhancing regional communications and connectivity</td>
<td>Coordinating anti-monopoly and fair competition policies</td>
<td>Establishing reciprocal consumer protection laws</td>
<td>– Agribusiness</td>
<td></td>
<td>Creating regional institutions</td>
</tr>
<tr>
<td>Linking financial markets</td>
<td>Opening the movement of students for higher education</td>
<td>Opening government procurement within the region</td>
<td>– Transport &amp; Logistics</td>
<td>– Dispute resolution mechanisms</td>
<td>– Regional development bank</td>
</tr>
<tr>
<td>Opening the movement of students for higher education</td>
<td>Harmonizing administrative requirements for businesses</td>
<td></td>
<td>– Business services</td>
<td></td>
<td>Developing a regional negotiating position with international organizations</td>
</tr>
</tbody>
</table>

- Eliminating trade and investment barriers within the region
- Improving regional transportation infrastructure
- Creating an efficient energy network
- Enhancing regional communications and connectivity
- Linking financial markets
- Opening the movement of students for higher education
- Harmonizing administrative requirements for businesses
- Creating a regional marketing program
- Sharing best practices in government operations
- Creating regional institutions
- Developing a regional negotiating position with international organizations

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Agenda

• Understanding Vietnam’s Economic Performance

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• Identifying Action Priorities

• Organizing for Competitiveness

• Creating an Economic Strategy
Stages of National Competitive Development
Shifting Policy Imperatives

- **Factor-Driven Economy**
  - Low Cost Inputs
    - Macro, political, and legal stability
    - Efficient basic infrastructure
    - Lowering regulatory costs of doing business
  - Productivity
    - Increasing local competition
    - Market openness
    - Advanced infrastructure
    - Incentives and rules encouraging productivity
    - Cluster formation and activation
  - Unique Value
    - Advanced skills
    - Scientific and technological institutions
    - Incentives and rules encouraging innovation
    - Cluster upgrading

Competitiveness Action Agenda: Key Priorities

**Continue Existing Efforts**

- Reduce corruption
- Improve infrastructure
- Deepen financial market reforms
- Impose regulatory attractiveness

**Fundamental Reform**

- Human resource development at all levels
- Reform of SOEs
- Cluster development
Reducing Corruption

• The government has repeatedly committed itself towards reducing corruption; and some action has been taken
• Evidence reveals little progress

• Vietnam needs to target corruption as a crucial barrier for growth and design an integrated strategy to tackle its occurrence

Action priorities
• Reduce the potential for corruption through simplified regulations, use of modern information technology, and improved SOE governance/privatization
• Set clear guidelines and reporting requirements for management of SOEs
• Demonstrate a commitment for transparency, including support for a strong press
Improving Infrastructure

• Significant **infrastructure investments** have been made in recent years

• Evidence on their **impact** is mixed as best. There is significant duplication of efforts and companies complain about serious bottlenecks

• Vietnam needs to better **target infrastructure investments** to meet the needs of its growing economy

**Action priorities**

• Establish a **national fund** for key infrastructure projects to be implemented under the supervision of the Prime Minister’s office

• Utilize **matching funds incentives** to improve effectiveness if investments by provincial governments

• Create a **public-private council** to advise on spending priorities
Deepening Financial Markets

• Vietnam has made clear progress on opening up financial markets, more recently also to foreign companies as part of the WTO agreement.

• But the weakness of Vietnam’s financial markets even before the global crisis, and the financing constraints faced by private companies, indicate that serious challenges remain.

• Vietnam needs to develop a modern regulatory and institutional structure to enable an effective financial system.

*Action priorities*

• Continue opening financial markets in line with WTO commitments.

• Create an effective, independent financial regulator, using outside help as needed.

• Establish a development bank to develop financing tools for private SMEs.
Regulatory Reform

- Regulatory reform has been on the Vietnamese policy agenda for some time, especially over the last five years.
- Despite some progress, the overall regulatory burden on businesses and citizens remains high with no clear societal benefits.
- Vietnam needs a fundamentally new approach to regulatory reform and assessment of new regulations.

**Action priorities**

- Aggressively pursue the work on regulatory reform initiated with foreign donors.
- Improve institutional capacity to evaluate and administer regulations, not just the rules themselves.
- Include an obligatory assessment of the administrative burden on business in the process of introducing new laws and regulations.
Human Resource Development

Basic education

- Enrolment rates have increased significantly but quality is low and skills fail to meet company needs
- Vietnam needs to dramatically improve educational quality, through setting standards, improving curricula, and involving the private sector in governance

Vocational training

- Vietnam lacks a skills training system
- Companies have launched own training efforts to address skill bottlenecks
- Vietnam needs a clear program for cluster-based workforce development

Higher education

- The number of universities has increased but quality is low and skills do not match company needs
- Higher university education standards must be set and enforced, drawing on international experts
- Vietnam needs to develop a plan and enabling institutions for assimilation of global technology
Restructuring of State Owned Enterprises

- The government has an explicit policy to promote private enterprise but there is deep-seated **ambivalence towards privatization**
- Without a thorough reform of the SOE sector, there is little hope for Vietnam to reach the **next level of economic development**

**SOE governance**
- Create independent **boards of directors**
- Implement **transparent financial reporting**
- Define clear **financial objectives**
  - Set corporate charters

**Competition in markets with SOEs**
- Remove existing trade, investment, and artificial entry **barriers protecting SOEs**
- Establish strong, independent **regulatory bodies**
- Support start-ups and spin-offs from SOEs

**Privatization**
- Create clear **legal conditions** for privatization
- Define **explicit objectives** for privatization process
- Create a **dedicated structure** for implementing privatization

- The creation of SOE groups is **not a solution** and can exacerbate problems if no other reforms are being implemented
Cluster Development in Vietnam

• Vietnam’s clusters currently tend to be narrowly focused on individual products

• There is limited collaboration among companies, suppliers and other institutions
  – Some clusters, like coffee, have the potential to significantly increase their performance if they adopt a collaboration approach

• Cluster-based development thinking is crucial in improving the delivery of other economic policies
  – Workforce skill development around clusters
  – FDI attraction/industrial zones around clusters
  – Cluster-based regional development initiatives
  – Quality and technology transfer organization for each cluster

• Policy should upgrade all existing and emerging clusters, not choose among them
Clusters and Economic Policy

- Clusters provide a framework for **implementing public policy** and **organizing public-private collaboration** to enhance competitiveness.

- Education and Workforce Training
- Management Training
- FDI/Business Attraction
- Export Promotion
- Industrial parks and free trade zones
- Physical Infrastructure
- Science and Technology Investments (e.g., centers, university departments, technology transfer)
- Standard setting and quality initiatives
- Market Information and Disclosure
- Environmental Stewardship
- Natural Resource Protection
Clusters and Economic Diversification

- Develop Related Clusters
- Deepen Existing Clusters
- Turn Niche Products Into Clusters
- Build Clusters Around MNCs
- Upgrade Existing Export Products and Services
## Upgrading Vietnamese Niche Positions, 2006

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Plastics</td>
<td>0.490%</td>
<td>Rubber</td>
<td>Natural rubber, balata and similar natural gums</td>
<td>7.82%</td>
<td>3.40%</td>
<td>$1,137,205</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plastic Waste</td>
<td>Reclaimed unhardened rubber; waste</td>
<td>1.88%</td>
<td>1.87%</td>
<td>$6,084</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Plastic Products</td>
<td>Plastic sacks, bags</td>
<td>1.55%</td>
<td>0.65%</td>
<td>$150,234</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rubber</td>
<td>Synthetic rubber</td>
<td>1.13%</td>
<td>1.13%</td>
<td>$143,316</td>
</tr>
<tr>
<td>Sporting, Recreational and Children's Goods</td>
<td>0.361%</td>
<td>Motorcycles and Bicycles</td>
<td>Parts of other motorcycles</td>
<td>1.42%</td>
<td>1.22%</td>
<td>$60,962</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motorcycles and Bicycles</td>
<td>Bicycles and other cycles, non-motorized</td>
<td>1.27%</td>
<td>-1.56%</td>
<td>$49,628</td>
</tr>
<tr>
<td>Communications Equipment</td>
<td>0.284%</td>
<td>Specialty Office Machines</td>
<td>Parts for calculating, accounting machines</td>
<td>23.04%</td>
<td>23.04%</td>
<td>$444,384</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electrical and Electronic Components</td>
<td>Insulated wire, cable and conductors</td>
<td>1.07%</td>
<td>0.72%</td>
<td>$705,725</td>
</tr>
<tr>
<td>Processed Food</td>
<td>0.260%</td>
<td>Specialty Foods and Ingredients</td>
<td>Starches, inulin and gluten</td>
<td>7.93%</td>
<td>6.23%</td>
<td>$148,445</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Food Products Machinery</td>
<td>Distilling, rectifying plant</td>
<td>2.64%</td>
<td>2.64%</td>
<td>$19,449</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specialty Foods and Ingredients</td>
<td>Vegetable saps, extracts</td>
<td>0.90%</td>
<td>0.50%</td>
<td>$9,193</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dairy and Related Products</td>
<td>Milk, concentrated or sweetened</td>
<td>0.84%</td>
<td>-0.22%</td>
<td>$89,315</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specialty Foods and Ingredients</td>
<td>Yeasts</td>
<td>0.81%</td>
<td>0.27%</td>
<td>$7,962</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specialty Foods and Ingredients</td>
<td>Homogenized food preparations</td>
<td>0.76%</td>
<td>0.59%</td>
<td>$4,888</td>
</tr>
<tr>
<td>Lighting and Electrical Equipment</td>
<td>0.256%</td>
<td>Glass</td>
<td>Drawn, float, cast glass, worked</td>
<td>6.39%</td>
<td>6.37%</td>
<td>$78,185</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electrical Parts</td>
<td>Other inductors</td>
<td>3.20%</td>
<td>2.86%</td>
<td>$137,477</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electrical Parts</td>
<td>Other electric transformers</td>
<td>1.17%</td>
<td>0.68%</td>
<td>$63,386</td>
</tr>
<tr>
<td>Motor Driven Products</td>
<td>0.156%</td>
<td>Motors and Generators</td>
<td>Electric motors&lt;=37.5w</td>
<td>1.88%</td>
<td>1.15%</td>
<td>$150,425</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Appliances</td>
<td>Sewing machines and parts</td>
<td>1.21%</td>
<td>0.26%</td>
<td>$45,749</td>
</tr>
<tr>
<td>Entertainment and Reproduction Equipment</td>
<td>0.125%</td>
<td>Audio Equipment</td>
<td>Loudspeakers, unmounted</td>
<td>1.41%</td>
<td>1.40%</td>
<td>$39,964</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Audio Equipment</td>
<td>Electric sound amplifiers</td>
<td>1.07%</td>
<td>1.07%</td>
<td>$8,745</td>
</tr>
<tr>
<td>Information Technology</td>
<td>0.121%</td>
<td>Peripherals</td>
<td>Input or output units</td>
<td>1.01%</td>
<td>1.01%</td>
<td>$653,740</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electronic Components and Assemblies</td>
<td>Printed circuits</td>
<td>0.36%</td>
<td>-0.43%</td>
<td>$85,738</td>
</tr>
<tr>
<td>Analytical Instruments</td>
<td>0.047%</td>
<td>Electronic Components</td>
<td>TV picture tubes, CRTs</td>
<td>1.26%</td>
<td>1.23%</td>
<td>$53,690</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electronic Components</td>
<td>Other electronic valves, tubes</td>
<td>0.35%</td>
<td>-0.50%</td>
<td>$12,186</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Process Instruments</td>
<td>Gas meters</td>
<td>0.34%</td>
<td>0.34%</td>
<td>$1,415</td>
</tr>
<tr>
<td>Production Technology</td>
<td>0.046%</td>
<td>Fabricated Plate Work</td>
<td>Steam generating boilers, super-heated water boilers; a</td>
<td>1.35%</td>
<td>1.35%</td>
<td>$53,010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Process Equipment Components</td>
<td>Articulated link chain and parts</td>
<td>0.45%</td>
<td>0.31%</td>
<td>$7,292</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Machine Tools and Accessories</td>
<td>Cutting blades for machines</td>
<td>0.42%</td>
<td>0.38%</td>
<td>$7,501</td>
</tr>
</tbody>
</table>

Agenda

• Understanding Vietnam’s Economic Performance

• Assessing Vietnamese Competitiveness

• Identifying Action Priorities

• Organizing for Competitiveness

• Creating an Economic Strategy
# The Process of Economic Development
## Shifting Roles and Responsibilities

<table>
<thead>
<tr>
<th>Old Model</th>
<th>New Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Government</strong> drives economic development through policy decisions and incentives</td>
<td>• Economic development is a <strong>collaborative process</strong> involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration</td>
</tr>
</tbody>
</table>

*• Competitiveness must become a **bottoms-up process** in which many individuals, companies, and institutions take responsibility
• Every community and cluster can take steps to enhance competitiveness*
Government and the Process of Economic Development

• Competitiveness is affected by a myriad of government entities
  – Multiple agencies and departments (e.g. finance, trade, education, science and technology, commerce, regional policy, energy, agriculture)
  – Multiple levels of government (nations, states, cities, etc.)
  – Intergovernmental relations with neighboring countries affect competitiveness

• Competitiveness is rarely the sole agenda of any government agency

• Coordinating structures are needed that brings together the ministries and departments necessary to formulate and implement an economic strategy

• Explicit mechanisms are needed to engage the private sector in dialog about policy priorities and implementation progress
Organizing for Competitiveness in Vietnam

Recommendations

• Create effective, independent regulatory organizations

• Improve economic policy at the provincial level

• Improve mechanisms for public-private discussion and collaboration

• Enhance strategic planning and program management capacity in the central and provincial governments

• Develop a national economic strategy process to guide priorities in improving the business environment
Regional Development in Vietnam

- Vietnam’s provinces are developing at **different rates**; prosperity levels between the richest and poorest regions differs greatly.

- Political power and responsibility for economic development has been **decentralized** to the provinces, who apply to the national government for funds.

- Provinces have adopted **unfocused growth strategies** with much duplication and little specialization across provinces.

- Provinces have **insufficient technical capacity** for policy design and implementation.

- Each province should be charged with developing an economic plan based on its **unique strengths and potential**.

- Each province should be expected to **publicly report** on implementation.
Competitiveness Institutions

• **Economic strategy unit** in the Prime Minister’s office
  – Regularly updating on progress
  – Lead a formal planning and program management process involving all agencies

• Public-private **competitiveness council**

• Vietnam **Competitiveness Institute**
  – To conduct analyses, benchmark vs. other countries, and train government leaders
  – Joint national and provincial

• Enhanced role of **business associations**
Agenda

• Understanding Vietnam’s Economic Performance

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• Creating an Economic Strategy

• Integrating Corporate Social Responsibility
Defining an Economic Strategy

National Value Proposition

- What is the unique competitive position of the nation or region given its location, legacy, and existing and potential strengths?
  - What roles with neighbors, the region, and the broader world?
  - What unique value as a business location?
  - For what types of activities and clusters?

Developing Unique Strengths

- What elements of context and the business environment are crucial priorities?
- What existing and emerging clusters should be developed first?

Achieving and Maintaining Parity with Peers

- What weaknesses must be addressed to achieve parity with peer countries?

- Priorities and sequencing are a necessity in economic development
The Need for an Economic Strategy

- The Vietnamese government follows largely an **evolutionary and reactive approach** in response to crises and specific problems.
- **Foreign aid inflows** are fragmented and driven by donor-priorities.
- This approach has been successful in achieving success in factor-based economic development, but will be **insufficient to move to a new stage**.

- Government needs leads in a broad-based discussion on a **new economic strategy** that sets priorities for improvements in the business environment and institutions.
  - Internally, the government needs to increase its technical capacity to support such a strategic dialogue, for example through a **strategy unit in the Prime Minister’s office**.